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Military Pay Comparability

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MILITARY PAY COMPARABILITY

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ABSTRACT

"Military Pay Compensation" is a review of the history and legislative background surrounding the development of the current method of reaching "comparability" with the private sector. The study discusses the goals of pay compensation to support the personnel force structure. It delineates the need for achieving comparability to support the current labor force, maintaining the retention levels and ensuring recruitment goals are achieved. It reviews the current method of determining comparability, looks at the alternatives under consideration and the alternatives that have been proposed. The report looks at some of the various methods of indexing to reach comparability and how the method selected relies on finding a comparable base line to start from. The study makes several recommendations on a method to achieve comparability.

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DISCLAIMER

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INTRODUCTION.

Military Pay Comparability - What is it and do we really need it? What is the history that brought us to this system? If pay comparability is needed, then what are the alternatives to achieve it? The history and background of the present system will be presented along with the alternatives previously considered and those alternatives under consideration at this time.

Since the end of the cold war, the United States Congress and former President Bush directed that the Department of Defense (DoD) military force structure be reduced to meet the perceived reduction in the threat facing this country today. To insure that the DoD hears and complies with the directions given, the Congress has reduced budgets and set manpower limits. Defense has established a "glide path" that it believes will maintain a viable, ready force structure and has requested funds to support that structure. The new Administration has decided that additional cuts in Defense spending are required if the deficit is to be reduced and budgets are to be brought into balance.

Military compensation has always been, and still is, a major cost factor in the Defense Budget. The President's Budget Submit in January, 1993 called for $76.3 billion in the Military Personnel Accounts out of a total Defense Budget of $260.0 billion or just over 29%! Because the pay compensation portion is such a large, single piece of the package, changes in both the compensation paid and the method of compensation (allowances vs. pays) will have a significant impact on the quality and size of the force.

BACKGROUND.

In the Military Compensation Background Papers - Fourth Edition, November, 1991 the editor points out that "Any military compensation system should be based on certain underlying principles that, in the aggregate, comprise its theory. "...Compensation should be designed to foster and maintain the concept of the profession of arms as a dignified, respected, sought after, and honorable career."[1] The "Background Papers" list six principles in Chapter I wherein the overall theme is the interrelationship of all aspects of personnel management and compensation. The third principle listed is one of Equity.

Equity holds within it a sense of fairness as one of the major issues that support the morale of the servicemember. That is, the chance to compete for promotions and for pay based on ability. Also included in this idea is one of equal pay for basically equal work. Thus, the sub-principle of comparability is formed[2].

The Hook Commission.

Comparability of pay was first addressed in "The Advisory Commission on Service Pay (The Hook Commission - 1948)" which recommended to Congress the pay and allowances structure that we use today. The 1948 Hook Commission Report was one of the earliest analytical studies of the comparability issue. It was a comprehensive study of jobs in over 100 industries and jobs in the military using Industrial Analysis techniques. The results of that study found that generally, enlisted personnel were paid comparably with their civilian counterparts and officers were underpaid.

Congress, with few minor changes to the report, enacted the Career Compensation Act of 1949.[3] "The rates of military compensation established under the Act were set by a comparison of levels of responsibility between military and private sector organizations."[4] This Commission Report established for the first time the idea that pay within the services for basically equal jobs should be the same and that the pay should be "comparable" to those salaries earned for like jobs in the private sector. This Act also overcame what was becoming a critical shortfall of qualified officers to man the force.

The Gorham Report.

Several committees were formed over the years that contributed various adjuncts to military compensation comparability. In 1962, the "Gorham Report" was the result of a panel convened by then Secretary of Defense Robert S. McNamara. This report became the foundation for legislation creating the first idea of "regular military compensation" (basic pay, subsistence allowance and quarters allowance) as a tool for comparing private and military pay.[5]

The Hubbell Report and The Gates Commission.

In 1967, "The Hubbell Report" - which became the "First Quadrennial Review of Military Compensation" - was convened by Secretary of Defense McNamara to review the principles behind the military compensation system. The major recommendation of this "Report" was to move to an all salary system for pay purposes. This recommendation was not adopted because of the expense involved and, because the draft was in effect, there was no need to change the pay system to attract new military personnel.[6] The pay and allowances system that the "Hubbell Report" sought to change became even more important when the "Gates Commission Report" was issued in 1970, recommending the elimination of the draft and a substantial increase in first term enlistee pay to attract the all volunteer force.[7]

Quadrennial Review of Military Compensation.

A series of reports that have had significant impact on the pay issue have been the "Quadrennial Review of Military Compensation" (QRMC) reports. Under Section 1008(b) of Title 37, United States Code, these reports are required by the President every four years as a complete review of principles and concepts of the compensation system. (The "Hubbell Report" previously reviewed was the first of these reviews.) The Second QRMC restructured special pays such as Flight Pay and Medical Specialty Pay to align these with the volunteer force idea but did not deal with comparability issues.[8]

The Third Quadrennial Report of Military Compensation.

The Third QRMC (1975 - 1976) became the first complete review of the military pay system since the "Hook Commission". Several major issues came out of this report. It recommended that military pay be considered as a total compensation package when it was adjusted; that the comparability standard should be with the Civil Service; and that the retirement system should be updated. The Congress established The Defense Manpower Commission (1976) to look into this but no legislation resulted from either study.[9]

President's Commission on Military Compensation.

In 1978, the Carter Administration established the "President's Commission on Military Compensation (PCMC - 1978-1979) to review all the studies on military compensation. The results of this commission was to recommend against a salary system for military pay and to recommend against a formal comparability system because of the costs involved. It did recommend that a system of bonuses, special and incentive pays be used to offset any shortfalls in manpower.

The Fourth Quadrennial Report on Military Compensation.

The Fourth QRMC (1979) reviewed the PCMC recommendations, modified them somewhat and produced draft legislation to enact the proposals. One of the major proposals dealing with retirement was opposed by the Department of Treasury and the Congress did not enact the recommended legislation.[10]

The Fifth and Sixth Quadrennial Report on Military Compensation.

The Fifth QRMC (1983-1984) and Sixth QRMC (1986-1988) did not produce comparability issues or legislation. The former dealt with the retirement system and certain other pays while the latter dealt with the Reserve and National Guard compensation systems. Several issues of note came from these two studies. The Fifth QRMC did establish the concepts and principles mentioned in the introductory paragraphs of this paper thus forming the precept of "equity" or "equality." The Sixth QRMC used analytical models for the first time in reviewing the retirement system for costs and benefits of possible changes.[11]

The Seventh Quadrennial Report on Military Compensation.

The Seventh Quadrennial Review of Military Compensation (1991-1992) was just completed and forwarded to the President for his consideration. It contained a comprehensive review of the comparability of military pay with the private sector and made several recommendations on needed changes. The 7th QRMC was chartered by President Bush to:

- "Conduct a fundamental review of the overall compensation system and assess its ability to continue to attract and retain high quality men and women through the 1990s and beyond."

- "In Particular, evaluate basic pay, allowances, special pays and bonus programs, and the mechanisms for their periodic adjustment."[12]

Overall, the 7th QRMC found that "... the current system can support the force structure for the twenty-first century. However, deficiencies and inconsistencies do exist and must be addressed to assure continued success."[13]

All of these reports, reviews and studies had one thing in common - they were making changes and recommendations in the military compensation system to overcome a shortfall in the recruitment and retention of manpower or to prevent the recurrence of this problem.

Military Compensation has been the method of solving the problems of attracting people to the military service and then of retaining them once they were in. The whole "... purpose of the military compensation system, like any compensation system, is to attract, retain, and motivate people."[14]

CURRENT PAY SYSTEM.

The current military pay system is composed of many facets but has the single national security objective of providing compensation sufficiently adequate to insure that the manpower readiness objectives of the Department of Defense are met. "If the compensation system does not attract, retain, and motivate service members, manpower imbalances and shortages develop that diminish unit efficiency....reducing the ability of the Armed Forces to accomplish their military tasks and undermining both our national security and foreign policy."[15] A clear understanding of the components of military pay compensation is necessary if comparability is to be considered a viable means of determining pay compensation. Compensation is divided into three major components: Regular Military Compensation (RMC), Special and Incentive pays (S&I), and Supplemental and Institutional Benefits.

Regular Military Compensation.

"In 1974, Public Law 93-419 formally defined Regular Military Compensation as 'the total of the following elements that a member of a uniformed service accrues or receives, directly or indirectly, in cash or in kind every payday: basic pay, basic allowance for quarters, basic allowance for subsistence; and the

Federal tax advantage accruing to the aforementioned allowances because they are not subject to Federal income tax.' This law was amended in 1980 to include Variable Housing Allowance and Station Housing Allowance in the definition of RMC."[16] Thus, RMC is composed of those pay items that everyone gets in one form or the other each payday.

Special and Incentive Pays.

S & I pay provides for more than thirty different pays to insure that there are an adequate number of personnel with required skills and/or experience to meet the needs of the services. It provides a flexible tool for the services to use to meet specialized needs without impacting the overall pay system. Not all personnel receive these pays, and, even between services, not all pays are the same. Each service determines its own needs and within the guidelines and laws established, determines which skills need the addition of S & I pay to meet accession/retention requirements.

Supplemental and Institutional Benefits.

This third component of compensation includes non-monetary entitlements such as health care and leave and benefits such as exchanges and commissaries. But perhaps the biggest item in this area is retirement. Retirement is perhaps the one area that is most often cited as such a large contributing compensation benefit that it requires a short explanation of its own before any discussion of comparability can be made. The retirement benefit is also one of the major problems with changing the current compensation package.

The first issue with the military retirement system is that it is NOT a pension plan system. Its one purpose is the maintenance of personnel readiness by:

(1) Maintaining a young combat-ready force for peace and war;
(2) Providing a mobilizing base of experienced personnel under continuing national obligation; and
(3) Offering support to those who chose to make the military a career a measure of financial security when they retire.[17]

"According to a 1981 Supreme Court decision, military retired pay has been characterized as reduced compensation for a reduced service. This was based upon the continuing obligation of retirees and their vulnerability to recall."[18] No other retirement system places this type of obligation on the separating employees so a comparison of compensation received would not be a fair one.

The second issue concerning retirement pay is critical to the politics of making any change to the current pay system. Military retirement pay is a percentage of the Base Pay (not the Regular Military Compensation pay) of the service member retiring. The percentage ranges from fifty percent at twenty years of service (YOS) to seventy-five percent at thirty YOS. Nothing is vested prior to twenty (although recent changes have authorized the Department of Defense to use a fifteen year plan) and the maximum pay is Seventy-five percent even if service is extended beyond thirty YOS. What this means is that each time you add to or take away from the Base Pay of a service member, you increase the government's liability and when you reduce the pay, you reduce the lifetime earnings potential of the service members you are trying to retain. It is this retention that pay comparability seeks to maintain.

Reaching for Comparability.

The first major technique to reach comparability utilized Regular Military Compensation and in concert with Public Law 90 - 207 passed in 1967, tried for "comparable" increases in pay in the military and the Federal Civil Service sector (General Service (GS) wage schedule). The GS schedule pay raise was tied to an index of pay known as the Professional, Administrative, Technical, Clerical (PATC) survey. When the Postal Revenue and

Federal Salary Act of 1967 was passed later that year, it allowed pay raises to close the gap between the private and the civilian and military sectors without additional action by Congress.[19]

In 1971, the Defense Department realized that without the draft, they were now competing with the rest of the employers for the available manpower. DoD was forced to offer competitive salaries to both retain and to attract young men and women to the military service. To do that, DoD sought increased pay as part of the Defense Appropriations Acts and obtained pay raises of 6.8 percent on 1 January 1971 and 14.2 percent on 14 November 1971. Pay raises of 5.4 percent and 6.0 percent on 1 January and 1 October 1972 respectively brought the military pay up to a level that was generally considered to be "comparable" with that of the civilian sector at that time.[20]

The Department of Defense felt that having attained comparability, the various laws requiring comparable percentage increases for public and private sectors would maintain the equality status. Unfortunately for federal employees, there were provisions in the laws that allowed for deviations so that between 1972 and 1982, the laws only worked three times (1972, 1973 and 1974).

One other significant law was passed during this time. On 19 September 1974, Public Law 93-419 (codified at 37 U.S.C. sec. 1009) was passed allowing for the equal distribution of the pay raise over the three elements of Regular Military Compensation. This law was amended in the Defense Appropriations Act of 1977 (Public Law 94-361) to allow the President to distribute the raise on other than an equal basis as long as at least 75 percent of the raise went into Base Pay.[21] This had the impact of causing the cash raise of military members who lived in government furnished housing and/or were furnished meals to be less than those who were drawing a cash payment for meals and quarters. Pay caps for civilian and military wages were also used during this time due to budgetary constraints.

All of this "tinkering" with pay compensation "placed the growth of military pay 17.6 percent behind the growth of private sector workers (as measured by PATC) by the end of FY 1980."[22] Significant increases in quarters allowances (14.3 percent), subsistence allowances (14.3 percent) and basic pay (10 to 17 percent based on pay grade) in the Uniformed Services Pay Act of 1981 (Public Law 97-60) were made to try and restore the comparability of private and military wages that existed in 1972.[23]

ALTERNATIVES.

Indexing.

As noted earlier, the Services and Congress have offered various indices as the measure of determining comparability. Each time the pay got significantly behind and accessions and retentions fell off, the services put forth a strong argument to Congress and Congress would pass a law giving major increases in pay and allowances. However, between these times, the President and Congress, citing various budgetary pressures, would allow pay to fall behind once again. Early indexing of pay to achieve comparability with the private sector used a "backhanded" indexing technique of tying military pay to civil service pay which was tied to the PATC survey index to gain comparability for the GS employee.

This had several problems inherent with it. First, and perhaps foremost, the law involved allowed for deviation from the index if the President so desired and, for mostly budgetary reasons, he "desired" to "vary" often. Secondly, the index did not truly measure the salaries of the "equivalent" type of labor. It was an adequate measure for public sector employees because it measured white collar, administrative labor but it did not provide an adequate basis for the military jobs that were either blue collar or non-existent in the civilian workforce.

Problems with this index were recognized by the military and DoD began to use the Employment Cost Index (ECI) during the late 1970s and early 1980s for "in house" computations of what the pay raise should be. Congress recognized the value of using a different method of determining military raises as early as 1981. The Defense Authorizations Act of that year directed the President to make recommendations to the Congress on a better way to determine what pay raises should be.[24] Although the President did not do so, Congress began mentioning how far behind the private sector military pay was falling when using the ECI as early as 1983.[25]

In November 1990, the Federal Employees Pay Comparability Act (Public Law 101-159, November 5, 1990) was passed that tied the civil service pay to the ECI. It also left in place the provisions of earlier law that tied the military pay to the civil service pay. Thus, while not directly tied to an index that reflects current private sector pay, the military can and does seek comparability through the GS pay schedule which is tied to a recognized overall public sector cost index. Bear in mind, however, that the President has the authority under certain conditions, to reduce or eliminate the pay raises.[26]

Thus the current system allows for the maintenance of comparability to the general public sector pay costs but it has several major flaws:

- It relies on there being comparability in pay at the beginning of the indexing period.

- The ECI may not be measuring the salaries of comparable skills in the work place.

- It is not a direct link to a valid index.

- While it is an "automatic" action, for various reasons, the President can "adjust" it downward if he so desires.

Comparability for Indexing. Based on current methods, the last time pay comparability existed was in 1981.[27] Without significant increases in pay, that would become the index point. As an alternative, some artificially created point could be made or a different indexing method could be sought. This is the first alternative: to change the index used.

Alternative Indexing Methods. The first alternative to the current pay comparability system is to find another index on which to rely and connect the military pay scale directly to the new index. There are several indexes that have been proposed in various studies over the last fifteen years. Each alternative has its positive and negative attributes.

Industry Wage Surveys. Industry wage surveys are a study in wages paid for various industry occupations. The information is solicited by the Bureau of Labor Statistics, U.S. Department of Labor from a sample of representative industries. The advantages of these surveys are that they represent actual data on salaries paid and they relate to a specific job or skill. The disadvantages are that they are limited in scope in that they only review certain skills within those industries and that the data could be fairly old since not all skills are surveyed each year.

Area Wage Surveys. Also a product of the Bureau of Labor Statistics (BLS), the Area Wage Survey is a study of specific labor costs based on identified skills in a particular metropolitan area. Like the Industry Wage Survey, it measures real labor costs of specific labor skills as reported by the businesses solicited in the survey. Like the previous survey method it has the same disadvantages of possibly old data, limited skills surveyed and the additional disadvantage of limited geographical accuracy. While the Industry survey covers all of the U.S. and its territories and possessions, the area survey only covers certain metropolitan areas.

National Survey of Professional, Administrative, Technical, and Clerical Pay. Previously discussed, PATC surveys by the BLS provided the data for determining the wage increases of the civil service (GS) employee since 1967. It measures white collar salaries. It is not useful for military pay purposes although is does a fairly good job for the GS employees. It has current data as of March each year but because it is limited in skill comparisons, it does not work well with most military skills.

Employment Cost Index. The Employment Cost Index (ECI) produced by the BLS is a measure of the per hour compensation paid to approximately three-fourths of the civilian workforce. It covers state and local government employees as well private sector workers. It has several significant advantages over the other indexes. It is:

- timely (produced quarterly);
- covers the majority of the workforce;
- includes costs of benefits;
- has various components (overall vs. wage vs. benefit groupings);

- recognized economic indicator by the Office of Management and Budget; and
- recognized and perhaps understood best by the Congress.

The disadvantages are that it:

- does not respond to the types of components that go into making up the military workforce (age, education, etc.);
- is a "weighted" index using Census Bureau data (could be up to ten years old) to weight the various BLS occupation skills; and
- does not cover all of the occupational skills in the military with the skills surveyed.[28]

A modification to this indexing alternative is to utilize the sub-indexes within the ECI to develop a cost increase for each of the various parts of the RMC. This would allow subsistence to grow at the same rate as food costs grow. This change would also allow housing allowances to grow at the rate housing costs are increasing. There would be no impact on the tax advantage nor on the variable housing allowance except as caused by the area adjustments currently used. The complicated question comes when considering base pay. If you have already allowed for increases in food and housing, do you deduct those increases from the ECI to find the increase in base pay or do you use the ECI to increase base pay?

The answer varies with the services and with the DoD Force Management and Personnel (FM&P) office. FM&P argues that since the ECI allows for wage increases due to overall increases in living costs and since food and housing are sub-components of the ECI, that the two increases should be subtracted from the ECI before computing a new pay raise. The Army has argued that ECI is an employment cost and represents a cost of labor not a cost of housing, subsistence and labor; therefore, the three indexes should be applied separately and without regard for the individual indexes.

Defense Employment Cost Index (DECI). The Department of Defense as part of the Seventh Quadrennial Review of Military Compensation, contracted with the Rand Corporation to review the various indexes and determine-the best or develop a new index. After intensive review, Rand produced an index that they feel overcomes the shortcomings of the ECI (which was the best of the current indexes).[29] The advantages of the DECI are:

- it allows for a current weighted index based on the composition of the military workforce and not the general population;
- it allows for adjustments due to age, sex, race, and education; and
- it adjusts to cover the occupational skills in the military.

The disadvantages of using the DECI are:

- it would need updating with short term ECI data to get the latest trends;
- it does not include benefits as it is currently developed;
- it uses race and sex to adjust wage profiles and the military does not hire using those criteria;
- it is created internally to the DoD so it can be subject to "adjustments" by DoD; and
- it is not known or understood as a common economic tool.

The DECI offers some very real advantages for working within the military. It can provide solid, comparable data for adjustments to the Skills and Incentives Pays as well as future retention and accession data but the "politics" of selling an internally created index to OMB or Congress could prove to be very difficult.

Recommendation. If indexing is to be used, then the Employment Cost Index (ECI) should be used directly with the military pay system and not through comparability with Federal Civilian Pay. While there are certain disadvantages to using the ECI, it offers the most current, widely accepted index and has the advantage of being one that is already directed for use by law. As to whether to use separate indexes on the three major components of RMC, I recommend that the single ECI index be used and if needed, distributed among the three components as required.

Salary System as an Alternative.

The first alternative relies on correcting the indexing problem by finding a useful index to adjust pay in comparison with the public sector. The second alternative is to do away with indexing altogether and develop a salary system that pays wages based on a scale established rather than on comparisons.

Salary System Review. This method was studied in great detail by the Brookings Institute in 1980 when they produced a study that showed deficiencies in using a single pay table for all services and paying without regard to occupational skill. It was argued that separating rank, or title, from pay grade along with other changes, would alleviate problems in staffing, retention and skill shortages.[30] Separate pay tables for each service would let each personnel department adjust salaries to meet the differences in supply and demand for each skill.

To counter these arguments, the services pointed to the need for "jointness" (all base pays are alike when we go to war together); that pay grade was in fact a surrogate for skill and ability (it takes skill and ability to get the pay grade) and that using Skill and Incentive Pays would make up vary nicely for any supply and demand problems in critical skill areas. Additionally, where would the new salary come from? The current technique used in the private sector is to find a like job in another industry and pay a comparable salary.

Recommendation. The current system, for all of its flaws, is a better system than trying to develop a new salary system based on some unknown comparability and establishing new and variable pay tables by service.

Alternative Wage Payment.

A third alternative is to change the way in which we pay wages. Instead of a variety of pays and allowances (Skills and Incentive Pays would not be changed), develop a "base pay" that covers all.

Advantages. This would allow direct comparisons of pay with the public sector and would make developing pay raise figures based on indexing quite simple: if private sector pay goes up 3 percent then military pay goes up three percent. The pay tables would be simplified making payroll functions easier. The issues of "fairness and equality" concerning housing and subsistence pay would be eliminated. Those personnel residing in housing would pay the fair market value of the quarters. Those personnel using government furnished meals would pay the cost of those meals either by payroll deduction or by cash at each meal.

Disadvantages. The most significant disadvantage to this alternative is the cost. Because of the "drag alongs" such as retired pay, the overall cost to the government could be significant. Additionally, elimination of the tax incentive would result in a loss of pay to the member unless salaries were increased to offset that and then the retired pay problem increases further.

Recommendations. Current studies show that the cost to chose this alternative could be as much as 1.3 billion dollars per year![31] Needless to say, that in this day of reduced budgets, spending an additional $1.3 billion to simplify pay comparability is not a viable alternative.

CONCLUSION.

The military pay system has a long and checkered history. It has evolved from the late 1940s to be a viable pay system that allows for flexibility in meeting the supply and demand variations of the economy and workforce. It has been studied and reviewed on a multitude of occasions. Public law requires the President to direct a review of Military Pay every four years. Recent studies show that to keep it successfully working in retaining well qualified military members and in attracting a well educated recruit, pay comparability is not only needed but required by law.

RECOMMENDATIONS.

Pay comparability can be easily obtained by using the indexing method of the current system. However, several changes should be made. First, the Employment Cost Index should be used directly and not through the General Schedule Civil Service Pay System. Second, the current shortfall in pay should be overcome so that the indexing becomes meaningful. Having a viable index is seriously challenged if the basis for comparisons is not equal. Third, flexibility in applying the index should be allowed. If a larger increase in one of the three components of Regular Military Compensation is needed, the Defense Department should be allowed to move within the increase. Finally, continued research into alternative pay adjustment mechanisms such as the Defense Employment Cost Index should continue to insure that the best method for reaching comparability is obtained.

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